

Message Text

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ACTION EUR-12

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STR-07 CEA-01 AGRE-00 /117 W
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P 181633Z APR 77

FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC PRIORITY 6078
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION GENEVA

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PARIS ALSO FOR USOECD; ALSO FOR USEC

PASS DEPARTMENT OF TREASURY

E.O. 11652: N/A

TAGS: ECON, EFIN, ETRD, BE

SUBJECT: BELGIUM ECONOMIC TRENDS: SUMMARY

1. EMBASSY SEMI-ANNUAL ECONOMIC TRENDS REPORT BEING
SUBMITTED THIS WEEK BY AIRGRAM (WITH ADVANCE COPIES
POUCHED SEPARATELY TO STATE, COMMERCE AND TREASURY DESKS).
THE FOLLOWING IS A RESUME OF THE REPORT'S SUMMARY AND
TRENDS SECTIONS, WHICH MAY BE OF PARTICULAR UTILITY GIVEN
SECRETARY BLUMENTHAL'S VISIT TO BRUSSELS NEXT WEEK.
2. SUMMARY. DESPITE CONTINUED STAGNATION IN EARLY 1978,
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THERE ARE SIGNS POINTING TO AN UPTURN IN THE BELGIAN
BUSINESS CYCLE BEFORE THE END OF THE YEAR. BELGIAN
NATIONAL BANK (BNB) SURVEYS INDICATE PRODUCTION COULD PICK
UP IN THE COMING MONTHS. BUSINESS CONFIDENCE WOULD ALSO
BENEFIT FROM A MORE STABLE DOLLAR. A BUSINESS UPSWING
WOULD PROVIDE SOME ATTRACTIVE OPPORTUNITIES TO US EXPOR-

TERS, AS BUSINESSES RE-STOCK. 1978 SHOULD SEE INCREASED BELGIAN IMPORTS OF AGRICULTURAL COMMODITIES, RAW MATERIALS AND SEMI-PROCESSED GOODS FROM THE UNITED STATES.

3. THE BELGIAN ECONOMY GREW AN ESTIMATED 1.7 PERCENT IN 1977. BELGIUM EXPECTS SOME MODEST IMPROVEMENT IN REAL GROWTH IN 1978, PERHAPS 2.5 - 3 PERCENT. FOR THE LONGER RUN, MOST OBSERVERS FORECAST A NUMBER OF YEARS OF MODEST EXPANSION WITH NO RETURN TO THE BOOM ERA OF THE MID-SIXTIES IN SIGHT.

4. BELGIAN INFLATION IS DOWN--TO 5 - 6 PERCENT ANNUALLY. UNEMPLOYMENT REACHED RECORD LEVELS IN 1977 AND IS STILL ON THE RISE DESPITE NEW GOVERNMENT EFFORTS TO PROVIDE PUBLIC SECTOR JOBS. INCREASING SOCIAL WELFARE SPENDING HAS CONTRIBUTED TO LARGE BUDGET DEFICITS IN 1977 AND 1978. THE BALANCE OF PAYMENTS REMAINS NEAR EQUILIBRIUM BUT COULD SWING TOWARDS GREATER DEFICIT IN 1978 WITH A BUSINESS UPSWING.

5. BELGIUM'S USUAL TRADE DEFICIT WITH THE U.S. CONTINUED IN 1977 ALTHOUGH BELGIAN EXPORTS TO THE U.S. GREW FASTER THAN IMPORTS FROM THE UNITED STATES. THE DEFICIT MAY INCREASE IN 1978 AS BELGIAN DEMAND FOR U.S. GOODS SWELLS TO HELP FUEL ECONOMIC GROWTH. U.S. EXPORTERS CAN EXPECT INCREASING OPPORTUNITIES FOR SALES OF SOPHISTICATED MACHINERY AND SPECIALIZED EQUIPMENT AND INSTRUMENTS, AS

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WELL AS SOME CONSUMER GOODS. THE UNITED STATES CONTINUES AS THE MOST IMPORTANT FOREIGN INVESTOR IN BELGIUM, BUT INVESTMENTS ARE GROWING AT A SUBSTANTIALLY SLOWER PACE THAN IN THE PAST.

6. OVERALL BUSINESS CLIMATE AND TRENDS. A RECENT BNB SURVEY REPORTS THAT MORE THAN HALF OF BELGIAN BUSINESSMEN FORESEE SOME IMPROVEMENT IN INDUSTRIAL CAPACITY UTILIZATION IN THE COMING MONTHS. THIS PRECEDED THE RECENT DECLINE OF THE DOLLAR IN EUROPE; IT IS NOT YET CLEAR HOW MUCH ADVERSE EFFECT THIS DEVELOPMENT HAS HAD ON BUSINESS CONFIDENCE.

7. OECD FIGURES INDICATE THAT BELGIUM LOST A SUBSTANTIAL SHARE OF ITS OVERSEAS MARKET SHARE IN 1975, FOLLOWING THAT YEAR'S CURRENCY REALIGNMENTS AND HAS RECOVERED ONLY ABOUT HALF THE GROUND LOST TO DATE. BECAUSE OF THIS EXPERIENCE, AND BECAUSE OF BELGIUM'S GREAT RELIANCE ON STABLE CONDITIONS FOR WORLD TRADE AND INVESTMENT, MUCH WILL DEPEND ON THE INTERNATIONAL CLIMATE, AS DETERMINED BY DEVELOPMENTS ON THE CURRENCY MARKETS, IN THE MULTINA-

TIONAL TRADE NEGOCIATIONS AND ELSEWHERE.

8. WITH SOME YEAR-END ECONOMIC PICK-UP, THE BELGIAN REAL GNP GROWTH RATE IN 1978 COULD BE IN THE RANGE OF 2.5 TO 3 PERCENT. INFLATION SHOULD BE IN THE 5.5-6.5 PERCENT RANGE. EXPORTS ARE PROJECTED AT ABOUT 8 PERCENT HIGHER THAN 1977 IN TERMS OF CURRENT BF WHILE IMPORTS COULD BE 10 PERCENT HIGHER, ALLOWING FOR INDUSTRIAL RE-STOCKING WHICH WOULD UNDOUBTEDLY ACCOMPANY AN UPTURN IN THE BUSINESS CYCLE.

9. INSTITUTIONALLY, BELGIUM IS MOVING OVER THE LONGER TERM TOWARDS INCREASED POLITICAL AND ECONOMIC REGIONALIZATION WITH GREATER AUTONOMY FOR THE WALLONIA,

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PAIRS ALSO FOR USOECD; ALSO FOR USEC

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FLANDERS AND BRUSSELS REGIONS. THE ECONOMIC EFFECTS OF REGIONALIZATION ARE, AS YET, UNCLEAR. SUBSTANTIAL UNCERTAINTY EXISTS AT THIS TIME AS TO HOW ECONOMIC

DECISION-MAKING WILL EVOLVE AND WHAT ITS POSSIBLE EFFECTS
COULD BE ON ALLOCATION OF BUDGETARY AND OTHER RESOURCES
WITHIN THE COUNTRY. IN PRINCIPLE, HOWEVER, NATIONAL
POLICY IN FOREIGN AND ECONOMIC AFFAIRS AS WELL AS IN
THE AREAS OF PUBLIC FINANCE AND MONETARY MANAGEMENT
WILL REMAIN WITH CENTRAL GOVERNMENT AUTHORITIES IN
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10. THE GOVERNMENT ALSO HAS BEEN MOVING-PROBABLY
UNAVOIDABLY UNDER THE STRAITENED ECONOMIC CIRCUMSTANCES-
IN THE DIRECTION OF INCREASED INTERVENTION IN THE
ECONOMY AND GREATER SPENDING ON SOCIAL BENEFITS. THE
BUDGET SITUATION WILL, HOWEVER, IMPOSE SOME RESTRAINTS
IN THESE AREAS.

11. IN ANY EVENT, A STRONG GENERAL RECOVERY IS STILL
BEYOND THE HORIZON. THE RELATIVELY MODEST RATE OF
GROWTH PROJECTED FOR 1978 SEEMS APPLICABLE TO THE LONGER
TERM AS WELL. EXPORTS CAN BE EXPECTED TO FOLLOW THE
OVERALL PATTERN OF WORLD TRADE, WHICH IS GENERALLY
FORECAST AT ABOUT HALF THE LEVEL OF THE MID-SIXTIES.
A SIGNIFICANT AND SUSTAINED ECONOMIC REVIVAL IN BELGIUM
IS UNLIKELY, AT LEAST UNTIL THE EARLY 1980'S. OLSEN

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